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STATE OF MONTANA
DEPARTMENT OF LABOR AND INDUSTRY
LABOR STANDARDS DIVISION,
HUMAN RIGHTS DIVISION, PERSONNEL APPEALS DIVISION
Report on Examination of Financial Statements
Two Fiscal Years Ended June 30, 1977



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STATE OF MONTANA

DEPARTMENT OF LABOR AND INDUSTRY

LABOR STANDARDS DIVISION,
HUMAN RIGHTS DIVISION, PERSONNEL APPEALS DIVISION

Report on Examination of Financial Statements

Two Fiscal Years Ended June 30, 1977

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

MONTANA HUMAN RIGHTS COMMISSION

		<u>Term Expires</u>
Deloris Storm, Chairperson	Forsyth	1979
Lee Topash	Helena	1979
David Fuller	Helena	1981
Peggy Krivec	Billings	1981
Karen Townsend	Missoula	1981

BOARD OF PERSONNEL APPEALS

John Quinn	Great Falls	1979
Joseph Reber	Helena	1979
Brent Cromley, Chairman	Billings	1981
George Heliker	Missoula	1981
Charlotte Posey	Helena	1981

ADMINISTRATIVE OFFICIALS

David Fuller	Commissioner, Department of Labor and Industry
Vacant	Administrator, Labor Standards Division
Robert Jensen	Administrator, Personnel Appeals Division
Raymond Brown	Administrator, Human Rights Division
Joan Duncan	Bureau Chief, Women's Bureau

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full reply of the Department of Labor and Industry is included in the back of this report.

	<u>Page</u>
Carefully monitor expenditures and appropriation levels to preclude exceeding authorized spending levels.	4
<u>Agency Reply:</u> Concur. See page 34.	
Consult the Department of Administration concerning accounting for license fees.	5
<u>Agency Reply:</u> Concur. See page 34.	
Properly record Comprehensive Employment and Training Act receipts as income.	6
<u>Agency Reply:</u> Concur. See page 34.	
Properly allocate expenses between funds when preparing payroll input.	8
<u>Agency Reply:</u> Concur. See page 34.	
Require all employees to submit standard requests for leave of absence and that supervisors properly approve the requests.	9
<u>Agency Reply:</u> Concur. See page 35.	
Review leave records in a timely manner for mathematical accuracy.	9
<u>Agency Reply:</u> Concur. See page 35.	
Reconcile, on a monthly basis, all requests for leave of absence and time and attendance reports to the leave records to disclose discrepancies.	9
<u>Agency Reply:</u> Concur. See page 35.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
Institute procedures whereby an appropriate official reviews and approves all claims prior to payment.	10
<u>Agency Reply:</u> Concur. See page 35.	
Reimburse travel allowances in compliance with Section 59-539, R.C.M. 1947.	10
<u>Agency Reply:</u> Concur. See page 35.	
Restrictively endorse all negotiable instruments upon initial receipt in compliance with the Montana Operations Manual.	11
<u>Agency Reply:</u> Concur. See page 36.	
Properly safeguard all negotiable instruments prior to deposit in compliance with the Montana Operations Manual.	12
<u>Agency Reply:</u> Concur. See page 36.	
Prepare a listing of all cash receipts and compare this listing to subsequent deposits in compliance with the Montana Operations Manual.	12
<u>Agency Reply:</u> Concur. See page 36.	
Prepare meaningful equipment records including all assets with a value of at least \$100 in compliance with Management Memo 70-17.	13
<u>Agency Reply:</u> Concur. See page 36.	
Conduct annual physical inventories in compliance with Management Memo 70-17.	13
<u>Agency Reply:</u> Concur. See page 36.	
Permanently tag each item of equipment worth at least \$100.	13
<u>Agency Reply:</u> Concur. See page 36.	
Reconcile all equipment expenditures of at least \$100 with monthly entries in the equipment ledgers.	13
<u>Agency Reply:</u> Concur. See page 36.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
Use only one subsidiary detail ledger number for each wage case.	14
<u>Agency Reply:</u> Concur. See page 36.	
Accept only cashier's checks as payment for wage claims from employers or allow a two week period for personal checks to clear the employer's bank.	15
<u>Agency Reply:</u> Concur. See page 37.	
Review all entries to the Statewide Budgeting and Accounting System.	15
<u>Agency Reply:</u> Concur. See page 37.	
Adopt written policies concerning forfeiting unclaimed wages to the general fund to assure compliance with Section 41-1314.3, R.C.M. 1947.	17
<u>Agency Reply:</u> Concur. See page 37.	
Seek resolution of the statutory conflict relating to the disposition of warrants for unclaimed wages.	17
<u>Agency Reply:</u> Concur. See page 37.	
Adopt written procedures whereby a penalty is assessed on employers in compliance with Section 41-1302, R.C.M. 1947.	18
<u>Agency Reply:</u> Concur. See page 38.	
Establish payables and receivables on SBAS within the revolving fund to record moneys owing and due the general fund, fact-finders, and other concerned parties.	19
<u>Agency Reply:</u> Concur. See page 38.	
Require private employment agencies to submit a written application prior to issuance of license renewals or seek legislation repealing this statutory requirement.	19
<u>Agency Reply:</u> Concur. See page 38.	
Ensure that all restaurants, bars and taverns who lease their place of business, post the required bond in compliance with Section 41-2005, R.C.M. 1947.	20
<u>Agency Reply:</u> Concur. See page 38.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
Accept only bonds to satisfy bonding requirements in compliance with Section 41-2005, R.C.M. 1947.	20
<u>Agency Reply:</u> The department is requesting further clarification regarding bonding requirements. See page 39.	
Adequately safeguard all bonds or securities which have been accepted in lieu of bonds.	20
<u>Agency Reply:</u> Concur. See page 39.	
Promulgate rules necessary to comply with Sections 41-2702 and 41-2704, R.C.M. 1947.	21
<u>Agency Reply:</u> The commissioner of the Department of Labor and Industry intends to seek clarification regarding bonding requirements. See page 39.	
Consult the Department of Administration for assistance in formally accounting for assets accepted in satisfying bonding requirements.	22
<u>Agency Reply:</u> Concur. See page 39.	
Establish policies and procedures to ensure that authorized program personnel review SBAS management reports on a monthly basis.	22
<u>Agency Reply:</u> Concur. See page 39.	

STATE OF MONTANA
Office of the Legislative Auditor

STATE CAPITOL
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MORRIS L. BRUSETT
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To the Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheet of the Department of Labor and Industry, Labor Standards Division, Personnel Appeals Division and Human Rights Division as of June 30, 1977, and the related statements of revenue compared to revenue estimates, expenditures compared with appropriations, and changes in fund balances for the two years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as indicated in the following paragraphs.

As described on page 12 of this report, the condition of the divisions' accounting records relating to fixed assets was such that we were unable to perform certain auditing tests and procedures which we deemed necessary to comply with generally accepted auditing standards. The divisions do not maintain subsidiary records for equipment sufficient to prepare financial statements. Accordingly, a statement of fixed assets, which is required by generally accepted accounting principles, is not included in the financial statements.

The divisions recorded approximately two years' Private Employment Agency Fund revenue in fiscal year 1976-77. As described on page 4 of

this report, we could not determine the exact dollar amount of the overstatement of revenue.

The agency did not record in the Federal and Private Revenue Fund \$20,774 of accounts receivable from the Veterans' Administration at June 30, 1977. This error resulted in an understatement of the June 30, 1977 Federal and Private Revenue Fund balance sheet. Since a similar amount of revenue from fiscal year 1975-76 was recorded in fiscal year 1976-77, the statement of revenue compared to revenue estimates is not significantly misstated.

Errors in accounting for Wage Collection Trust Fund accounts receivable resulted in an erroneous negative balance of \$2,651 at June 30, 1977. This matter is further described on page 15 of this report.

Expenditures in the Board of Personnel Appeals Revolving Fund are overstated in fiscal year 1975-76 by \$3,809, and General Fund expenditures for all divisions are understated by \$19,540. The Board of Personnel Appeals Revolving Fund includes expenses which should have been charged to the General Fund. The division overexpended its fiscal year 1975-76 General Fund appropriation by \$4,009, and \$3,809 of this overexpenditure was charged to the Revolving Fund. The remaining \$200 was charged to the Labor Standards Division's General Fund appropriation. The Human Rights Division exceeded its fiscal year 1975-76 general fund appropriation by \$7,532. These expenditures were charged to the Federal and Private Revenue Fund. The Labor Standards Division incorrectly coded \$7,790 of General Fund expenditures to the Federal and Private Revenue Fund, and \$409 of other accounting errors were made involving General Fund expenditures. These errors overstated the Board of Personnel Appeals Revolving Fund expenditures and understated General Fund

expenditures for fiscal year 1975-76 in the statement of expenditures compared with appropriations, the fiscal year 1975-76 statement of expenditures by object and the statement of changes in fund balances.

During fiscal year 1975-76 the Human Rights Division recorded Comprehensive Employment and Training Act (CETA) income as expenditure abatements rather than income, resulting in a \$20,020 understatement of the Human Rights Division's expenditures in the Federal and Private Revenue Fund for fiscal year 1975-76. This matter is further discussed on page 6 of this report.

In our opinion, because of the effects of the matters discussed in the third paragraph, the fiscal year 1976-77 statement of revenue compared to revenue estimates and the fiscal year 1976-77 statement of changes in fund balances do not present fairly Private Employment Agency Fund revenue in conformity with generally accepted accounting principles, nor does the June 30, 1977 balance sheet fairly present Private Employment Agency Fund assets and fund balance.

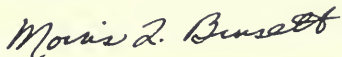
In our opinion, because of the effects of the matters discussed in the fourth and fifth paragraphs, the balance sheet does not present fairly the Federal and Private Revenue Fund and the Wage Collection Trust Fund as of June 30, 1977. In our opinion, because of the effects of the matters discussed in the sixth paragraph, the fiscal year 1975-76 statement of expenditures compared with appropriations, the fiscal year 1975-76 statement of expenditures by object, and the statement of changes in fund balances, do not present fairly the Board of Personnel Appeals Revolving Fund expenditures or General Fund expenditures. In our opinion, because of the effects of the matters discussed in the seventh paragraph, the fiscal year 1975-76 statement of expenditures

compared with appropriations does not present fairly the Human Rights Division's Federal and Private Revenue Fund expenditures, nor does the fiscal year 1975-76 statement of expenditures by object present fairly the Human Rights Division's expenditures in conformity with generally accepted accounting principles.

In our opinion, the financial statements listed in the accompanying table of contents, except for those mentioned in the eighth and ninth paragraphs, present fairly the financial position of the various funds of the Department of Labor and Industry, Labor Standards Division, Human Rights Division and Personnel Appeals Division at June 30, 1976 and 1977, and the results of their operations and the changes in fund balances for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

The accompanying statement of expenditures by object is not necessary for a fair presentation of the financial statements but is presented as supplemental information. This information has been subjected to the tests and other auditing procedures applied in our examination of the financial statements, and in our opinion, except as described in the sixth and seventh paragraphs, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in cursive script that reads "Morris L. Brusett". The signature is written in dark ink and is positioned above the printed name and title.

Morris L. Brusett, C.P.A.
Legislative Auditor

October 7, 1977

COMMENTS

GENERAL

Article XII, Section 2, Constitution of Montana, requires that the legislature establish a Department of Labor and Industry, headed by a commissioner appointed by the Governor and confirmed by the senate. The legislature has established a Department of Labor and Industry by enacting Section 82-A-1001, R.C.M. 1947.

Pursuant to the Executive Reorganization Act of 1971 all functions of the former Standards Bureau, Apprenticeship Council, and Women's Bureau were transferred to the Department of Labor and Industry. The Board of Personnel Appeals and the Human Rights Commission are attached to the Department of Labor and Industry for administrative purposes; however, the Human Rights Commission may hire its own personnel, may seek and receive private and federal funds in its own name, and may determine matters of policy concerning the use of its budget.

The department is divided into six divisions. Three of these divisions, Employment and Training Division, Employment Security Division, and the Worker's Compensation Division, have been audited separately and are not included in this report.

The other three divisions, the Labor Standards Division, the Personnel Appeals Division, and the Human Rights Division, are all located in Helena, and employ 42 individuals in addition to the commissioner of Labor and Industry. The commissioner of Labor and Industry is responsible for the following major functions in these three divisions.

The Standards Bureau administers the state labor and wage laws including the minimum wage and hour law; the wage payment plan; child labor laws; predetermined minimum wage laws relating to public works

contracts; the Restaurant, Bar, and Tavern Wage Protection Act; the Nurses Relations Act; the Wage Collection Act; and the licensing and regulation laws relating to private employment agencies.

The Apprenticeship Bureau approves and registers all craft trade apprenticeships in Montana and approves and registers on-the-job training. The bureau also acts as an approval agency for veterans who are entitled to Veterans' Administration benefits and who are engaged in on-the-job training or trades requiring an apprenticeship.

The Women's Bureau establishes policies which will enable women to contribute their fullest potential to society. The bureau brings public awareness to the employment problems of women through its educational program.

The Personnel Appeals Division administers the Collective Bargaining Act for public employees, serves as an appeals board for state employees covered by the classification and wage plan, and conducts grievance hearings for the Department of Highways and Department of Fish and Game employees.

The Human Rights Division's responsibilities include investigation and hearings of cases involving the right of an individual to be free of discrimination because of race, creed, color, sex, national origin, physical or mental handicap, or marital status; and investigation of civil rights violations in employment, public accommodations, education and financial institutions or labor organizations.

Our audit disclosed several accounting errors and management weaknesses within these divisions of the Department of Labor and Industry. We discuss our findings and recommendations in the following report.

Many of the recommendations included in the report result from situations existing during the first 20 months of the audit period. The department, during the latter portion of the audit period, substantially improved the quality of accounting personnel, and many of the recommendations in this report were implemented or partially implemented by June 30, 1977. The recommendations are included in the report since they affected the department during the audit period.

EXCEEDING AUTHORIZED SPENDING AUTHORITY

Section 79-901, R.C.M. 1947, states, in part, that it shall be unlawful for any officer, department, board, commission, or bureau having charge of the disbursement or expenditure of the income provided by legislative appropriation to exceed appropriation levels. The section further states that it shall be the duty of any officer, department, board, commission, or bureau to keep such expenditures, obligations and liabilities within the amount of such income. Section 79-904, R.C.M. 1947, sets forth the penalties for violation of Section 79-901, R.C.M. 1947.

The Personnel Appeals Division and the Human Rights Division exceeded their fiscal year 1975-76 general fund authorized spending authority. The Personnel Appeals Division exceeded its fiscal year 1975-76 authorized spending authority by approximately \$4,000 and the Human Rights Division exceeded its spending authority by approximately \$7,500. These expenditures were paid from fiscal year 1976-77 moneys.

Because the expenditure of funds in excess of appropriations may represent a penal violation, we have advised the Attorney General and the Governor of this matter, pursuant to Section 79-2310(3), R.C.M. 1947.

RECOMMENDATION

We recommend that the department carefully monitor expenditures and appropriation levels to preclude exceeding authorized spending levels.

REVENUE

The divisions reported revenue of \$152,566 during fiscal year 1975-76 and \$186,491 during fiscal year 1976-77 from private employment agency license fees, federal and private grants, and fact-finding proceedings pursuant to Section 59-1614(7), R.C.M. 1947. During our audit of these amounts, we noted the following problems.

Private Employment Agency Fund Revenue

The Labor Standards Division, in compliance with Section 41-1430, R.C.M. 1947, charges private employment agencies an annual license fee. The licenses expire on June 30; therefore, renewals are due on July 1 of each fiscal year. The division receives most of these fees prior to June 30 and therefore must, in compliance with Montana Operations Manual (MOM) 2-1210.22, deposit them when received.

The division, in past fiscal years, has held the checks until they could be deposited in the following fiscal year. This procedure is not in compliance with MOM 2-1210.22; however, it does accomplish the objective of matching revenues and expenditures. The division deposited fiscal year 1977-78 license fees in June 1977 in compliance with MOM 2-1210.22, and also recorded the revenue in fiscal year 1976-77. This resulted in an overstatement of fiscal year 1976-77 Private Employment Agency Fund revenue and an incorrect matching of revenues and expenditures. The Statewide Budgeting and Accounting System (SBAS) is equipped

to properly account for receipts collected in advance. The department should consult the Department of Administration concerning accounting for license fees.

RECOMMENDATION

We recommend that the department consult the Department of Administration concerning accounting for license fees.

Veterans' Administration Revenue

The department receives Veterans' Administration (VA) moneys on a reimbursement basis to assist in the operation of the Apprenticeship Bureau. The agency makes expenditures prior to receipt of moneys from the VA and records the revenue when received. The audit guide, Audits of State and Local Governmental Units, issued by the American Institute of Certified Public Accountants, states, in part, that if expenditure of funds is the prime factor for determining eligibility for grant funds, revenue should be recognized at the time of making the expenditure.

Also, Governmental Accounting, Auditing, and Financial Reporting (GAAFR), published by the National Committee on Governmental Accounting, states, in part, that the modified accrual basis of accounting is that method of accounting where revenues are recorded when received in cash, except for material or available revenues which should be accrued to reflect revenues earned. GAAFR further states that revenue sources which can and should be recorded on the accrual basis include grants from other governments.

Montana Operations Manual, Section 2-0240.40, states that full accrual accounting will be permitted if the need justifies the application; however, the section does not define the conditions when full accrual accounting will be used by state agencies. We discussed this

matter with Department of Administration officials who stated that accrual of grant revenue is being actively addressed on the national level, and that at the present time accrual of revenue is optional for state agencies. The SBAS upgrade project is also considering revenue accrual.

Comprehensive Employment and Training Act (CETA)

During our audit period the Human Rights Division received CETA moneys through the Governor's Employment and Training Council. The accountant recorded these moneys as expenditure abatements rather than income during fiscal year 1975-76. This resulted in a \$20,020 understatement of Human Rights Division's expenditures in fiscal year 1975-76 and an understatement of Human Rights Division's income of \$26,000 in fiscal year 1975-76. The agency must record CETA moneys as income rather than expenditure abatements to avoid misstatements of income and expenditures.

Income and expenditures are understated by different amounts since the division received \$5,980 of CETA funds in June 1976 but failed to record the receipt until September 1976. This receipt was in the form of an accounting entry transfer between state agencies rather than a receipt of dollars. We could not, nor could division personnel, determine why they left the transaction unrecorded for three months. The division should record all income immediately upon receipt.

RECOMMENDATION

We recommend that the department properly record Comprehensive Employment and Training Act receipts as income.

PERSONAL SERVICES

The Labor Standards, Human Rights, and Personnel Appeals Divisions reported personal services expenditures during fiscal year 1975-76 of

\$459,957--\$407,456 for salaries and hourly wages and \$52,501 for employee benefits. Fiscal year 1976-77 personal service expenditures were \$550,070--\$490,852 for salaries, other compensation, and hourly wages and \$59,218 for employee benefits. This represents 69 percent and 74 percent of total agency expenditures for each year. Because of the significance of payroll expenditures, the divisions must have an adequate system to control and review these expenditures. The discussion that follows deals with payroll procedure problems we noted during our audit.

Accounting Distribution of Payroll Expenditures

In the audit of the divisions for fiscal year ended June 30, 1975, a recommendation was made to charge expenditures to the Veterans' Administration (VA) appropriation in the same ratio as the VA reimburses expenditures. The division has not complied with this recommendation.

The VA reimburses the agency for a portion of the salaries of several employees who work in the Apprenticeship Bureau. We noted that the accountant charged an incorrect portion of these employees' salaries to the VA appropriation. For example, the accountant should have charged one employee's salary at the rate of 33 percent, or \$3,359, to the VA appropriation and the remainder to the general fund. The accountant charged 100 percent, or \$11,696, of this employee's salary to the VA appropriation during fiscal year 1975-76. In another instance the accountant charged 96 percent, or \$7,780, of an employee's salary to the general fund when she should have charged the general fund 60 percent, or \$4,842.

This procedure creates budgetary problems since the division is not aware of the extent general fund money is needed to fund employees'

salaries from year to year. This procedure also results in misstatements of expenditures by fund. This situation could be corrected by the division's including two lines of coding on the prepayroll submitted to Central Payroll--one line for the VA's portion of the payroll expenditures and one line for the general fund's portion.

RECOMMENDATION

We recommend that the department properly allocate expenses between funds when preparing payroll input.

EMPLOYEE LEAVE

The division maintains leave records for its employees on a biweekly basis. Our review of these records disclosed discrepancies and violations of existing laws and regulations governing employee leave. We discuss our findings in the following sections.

Employee Leave Records

Employee leave records contained numerous errors and omissions. We noted at least one of the following discrepancies in every leave record we examined.

None of the divisions consistently requires its employees to submit the standard request for leave of absence for leave taken. During our audit period Montana Operations Manual 1-0304.81 stated, in part, that agencies will provide the standard request for leave of absence form for their employees.

We also noted that: (1) leave records contained many mathematical errors; (2) leave records showed more leave taken than authorized on the standard request for leave of absence form; and (3) time summaries prepared by employees sometimes did not match entries on the leave records.

For leave records to be useful in determining an employee's accrued leave balance, they should be free of mathematical errors and reflect all leave accrued and granted employees. Employees should substantiate all leave taken with standard requests for leave of absence.

RECOMMENDATION

We recommend that the department:

- 1. Require all employees to submit standard requests for leave of absence and that supervisors properly approve the requests.*
- 2. Review leave records in a timely manner for mathematical accuracy.*
- 3. Reconcile, on a monthly basis, all requests for leave of absence and time and attendance reports to the leave records to disclose discrepancies.*

EXPENDITURES

During fiscal years 1975-76 and 1976-77 the divisions reported expenditures of \$663,701, and \$742,074, respectively, for various goods, services, and equipment. These expenditures are detailed by program and expense object on page 29.

Internal Control Over Expenditures

An appropriate official does not always approve claims processed by the division. We noted that 43 percent of our sample claims from the audit period were signed only by the accountant, the person preparing the claims. We also noted that 6 percent of the claims from our sample were approved by a secretary. The agency should institute procedures whereby an appropriate official approves all claims. This approval would serve two purposes: (1) management would be aware of the magnitude

and types of expenditures; and (2) the Statewide Budgeting and Accounting System's documents would be reviewed. We noted several instances where the accountant charged the incorrect fund while making expenditures. The amounts of the incorrect charges were immaterial; however, the errors indicate that a department official should review and approve all claims.

RECOMMENDATION

We recommend that the department institute procedures whereby an appropriate official reviews and approves all claims prior to payment.

Compliance with Travel Laws

Section 59-539, R.C.M. 1947, states, in part, that to be eligible for meal allowances an employee must have been in a travel status for more than three continuous hours and the travel must have commenced more than one hour before, or terminated more than one hour after, the employee's normally assigned work shift for meals other than the noon meal.

We noted instances where the division allowed meal reimbursement to employees when employees were not in a travel status. We also noted reimbursement to employees for travel at times which were not eligible for reimbursement in compliance with Section 59-539, R.C.M. 1947.

RECOMMENDATION

We recommend that the department reimburse travel allowances in compliance with Section 59-539, R.C.M. 1947.

CASH

The divisions received cash of \$152,566 and \$186,491 in fiscal years 1975-76 and 1976-77, respectively, as revenue and income. The

Labor Standards Division also receives cash from employers and disburses cash to employees in its enforcement of wage and hour laws. Our audit revealed weaknesses in the handling of cash.

The divisions do not restrictively endorse checks immediately upon receipt. Montana Operations Manual 2-1210.21 states, in part, that negotiable instruments shall be restrictively endorsed at the time of initial receipt. We noted two different occasions during the first 20 months of our audit period where the accountant had from \$1,000 to \$2,000 of unendorsed checks in her possession. In one other instance the agency accountant had two unendorsed checks in her possession, one of which did not have the payee entered on the check. Unendorsed checks are not properly safeguarded. The accountant places the checks in an unlocked desk awaiting deposit. Montana Operations Manual 2-1210.25 states, in part, that collections shall, as a minimum, be stored in a locked box appropriately secured.

The divisions do not prepare a listing of cash receipts upon initial receipt. Montana Operations Manual 2-1210.24 states, in part, that state agencies shall maintain a daily record of collections indicating the total amount collected and the disposition made thereof. The mail opener should prepare the record of collections, and procedures should ensure that all receipts are deposited with the Treasury Division of the Department of Administration.

RECOMMENDATION

We recommend that the department:

1. *Restrictively endorse all negotiable instruments upon initial receipt in compliance with the Montana Operations Manual.*

2. Properly safeguard all negotiable instruments prior to deposit in compliance with the Montana Operations Manual.
3. Prepare a listing of all cash receipts and compare this listing to subsequent deposits in compliance with the Montana Operations Manual.

FIXED ASSETS

Each division maintains equipment inventory records; however, these records are incomplete and provide little control or usefulness to management.

Management Memo 70-17, dated June 30, 1970, states, in part, that each state agency is responsible for the management of all state property within their jurisdiction. This includes maintaining records to identify fixed assets. The management memo also sets forth certain guidelines to accomplish the objectives of the memo including: (1) taking a physical inventory of fixed assets each fiscal year; (2) recording all fixed assets that cost \$100 or more; and (3) recording all changes in fixed assets between inventory dates.

Our review of office equipment at the Labor Standards Division revealed the following weaknesses:

1. Physical inventories of fixed assets are not being taken each fiscal year.
2. Certain fixed assets worth at least \$100 and newly purchased equipment were not recorded in the inventory records.
3. Recorded cost was incorrect or the agency did not record cost in certain instances.
4. Inventory tags were not attached to all equipment.

Adequate accounting and control over equipment is necessary to provide the proper physical safeguards over state-owned property.

The Department of Administration is currently developing a state-wide Property Accountability Management System (PAMS) to account for and control state owned fixed assets. An official of the department stated that they expect to have the system operable by July 1, 1978. Not all agencies will be able to implement the system on July 1, 1978, but the system should be available.

RECOMMENDATION

We recommend that the department:

- 1. Prepare meaningful equipment records including all assets with a value of at least \$100 in compliance with Management Memo 70-17.*
- 2. Conduct annual physical inventories in compliance with Management Memo 70-17.*
- 3. Permanently tag each item of equipment worth at least \$100.*
- 4. Reconcile all equipment expenditures of at least \$100 with monthly entries in the equipment ledgers.*

STANDARDS BUREAU

In an attempt to fulfill various functions assigned to the Labor Standards Division a Standards Bureau was established. In enforcing wage and hour laws, the Standards Bureau collects moneys from employers and holds the money in 'trust for various employees. To account for this money the bureau maintains a wage trust account.

Wage Trust Account

The Labor Standards Division maintains the wage trust account on the Statewide Budgeting and Accounting System (SBAS), with control

totals and a Subsidiary Detail Ledger (SDL). In the audit of the division for fiscal year ended June 30, 1975, a recommendation was made to establish a system of accountability over the wage trust account. The division has not fully implemented this recommendation.

We noted in our audit that the individual SDL accounts provide management with no useful information. If the subsidiary listing is to be a useful tool for management, the division should assign one SDL number to each wage case. In this manner management can easily determine the amount of moneys held in trust for all employees of each wage case.

The division has accepted personal checks from employers for wages due employees. We noted that when the division presented several of these checks for payment they were returned for insufficient funds. Prior to receipt of the returned checks, the agency issued state warrants to claimants for the amounts of the bad checks. In the event that these checks are uncollectible the agency will have to honor the state warrants with their own funds. For example, a personal check for \$1,313 was returned to the division with insufficient funds when the division had previously issued state warrants on the \$1,313. To eliminate this problem the division should require cashier's checks from employers as payment of wage claims or allow a two week period for personal checks to clear the employer's bank.

RECOMMENDATION

We recommend that the department:

- 1. Use only one subsidiary detail ledger number for each wage case.*

2. *Accept only cashier's checks as payment for wage claims from employers or allow a two week period for personal checks to clear the employer's bank.*

Deferred Accounts Receivable

In compliance with Section 84-7101, R.C.M. 1947, the Labor Standards Division turns uncollectible accounts receivable from employers over to the Department of Revenue for collection. The division has made several accounting errors in transferring these receivables, causing material misstatements of total assets of the wage collection trust fund at June 30, 1977. Deferred accounts receivable are understated at June 30, 1977 by \$2,651 or 180 percent of the year-end balance. The reserve account for the receivable is also understated by \$2,651.

The errors occurred since the division reduced accounts receivable on the general ledger without previously establishing the receivables, resulting in negative receivable balances. To avoid material misstatements of financial statements the division must review all accounting entries prior to inputting them in the Statewide Budgeting and Accounting System.

RECOMMENDATION

We recommend that the department review all entries to the Statewide Budgeting and Accounting System.

Forfeiting Unclaimed Wages to the General Fund

Section 41-1314.3, R.C.M. 1947, states that wages collected by the commissioner of Labor and Industry remaining unclaimed for a period of more than two years from the date of collection shall be forfeited to the state general fund.

In January 1977 the division made its first forfeiture of unclaimed wages to the general fund. As of January 1977 there were wages in the Wage Trust Account which had remained unclaimed for periods of up to two years and six months. As of September 1977 the division had not forfeited any additional wages to the general fund, and as of that month an additional \$870 remained unclaimed for more than two years. Officials at the division stated that there are no written policies concerning forfeiting unclaimed wages to the general fund.

As mentioned above, Section 41-1314.3, R.C.M. 1947, states that wages remaining unclaimed for a period of more than two years shall be deposited to the state general fund. Section 79-108, R.C.M. 1947, states in part, that all warrants drawn by the State Auditor on the state treasury shall be presented for payment within one year after issuance, and if the payee fails to present the warrant for payment within one year, the State Auditor shall cancel the warrant and deposit it to an agency fund administered by the State Auditor. Three years after cancellation, the warrant is treated as abandoned property under the guidelines of Title 67, Chapter 22, R.C.M. 1947. Proceeds from abandoned property are deposited to the trust and legacy fund for public schools.

The division makes payment of the collected wages with state warrants and in several instances the division is unable to locate the payees. These warrants are returned by the postal service. In certain of these instances, the division has restrictively endorsed the warrants and has deposited them to its trust fund for two years to facilitate compliance with Section 41-1314.3, R.C.M. 1947. This procedure lacks sound internal control over cash since the division is endorsing warrants payable to other persons.

For certain of these warrants the division has requested the State Auditor to cancel the warrants and to return the funds to the division. The State Auditor has denied this request due to the requirements of Section 79-108, R.C.M. 1947.

There is an apparent conflict between the two existing statutes since Section 41-1314.3 states that the unclaimed wages must be deposited to the general fund and Section 79-108 states that unclaimed warrants must be deposited to the State Auditor's agency fund and subsequently treated as abandoned property. The division should consider obtaining an Attorney General's Opinion or proposing legislation to resolve the conflict.

RECOMMENDATION

We recommend that the department:

- 1. Adopt written policies concerning forfeiting unclaimed wages to the general fund to assure compliance with Section 41-1314.3, R.C.M. 1947.*
- 2. Seek resolution of the statutory conflict relating to the disposition of warrants for unclaimed wages.*

Penalty Assessment

Section 41-1302, R.C.M. 1947, states that any employer who fails to pay his employees' wages due shall be assessed a penalty of 5 percent per day up to a maximum of 20 days. The section further states that it shall be the duty of the commissioner of Labor and Industry to inquire diligently for any violations of this act, and institute actions for the collection of unpaid wages. The commissioner must also assess penalties provided, in such cases as he may deem proper. The commissioner of Labor and Industry is required to assess a penalty in all cases where he

institutes action for the collection of unpaid wages. The determination of whether to institute action for collection of wages is discretionary with the commissioner.

We noted that out of 25 cases we examined the commissioner instituted action on 14 and only assessed penalties on three of the 14 cases. Division officials stated that they have not adopted written procedures to facilitate compliance with Section 41-1302, R.C.M. 1947. To assure compliance with Section 41-1302, R.C.M. 1947, the commissioner must assess a penalty in all cases in which he institutes action.

RECOMMENDATION

We recommend that the commissioner of Labor and Industry adopt written procedures whereby a penalty is assessed employers in compliance with Section 41-1302, R.C.M. 1947.

PERSONNEL APPEALS DIVISION REVOLVING FUND

In carrying out the various functions assigned to the Personnel Appeals Division the division sometimes institutes fact-finding proceedings. Section 59-1614(7), R.C.M. 1947, states that "The cost of fact-finding proceedings shall be equally borne by the board and the parties concerned." In an attempt to account for the various fact-finding billings and payments, the division has established a revolving fund within the Statewide Budgeting and Accounting System (SBAS). We noted that the control and accounting over the revolving fund is inadequate.

The division transfers a specified amount of money into the revolving fund from the general fund at the beginning of each fiscal year. The board uses this money to get the fund started, since payments to fact-finders are usually made prior to the division's receipt of other concerned parties' contributions. With the system used the division has

no means of determining if the general fund has paid its proportionate share of fact-finding in compliance with Section 59-1614(7), R.C.M. 1947. To enhance accountability and control within the revolving fund, the division should establish payables and receivables on SBAS to record moneys owing and due the general fund, fact-finders, and all other concerned parties. In this manner the division could determine whether or not the general fund is paying its proportionate share of fact-finding costs.

RECOMMENDATION

We recommend that the department establish payables and receivables on SBAS within the revolving fund to record moneys owing and due the general fund, fact-finders, and other concerned parties.

PRIVATE EMPLOYMENT AGENCIES' LICENSES

Section 41-1426, R.C.M. 1947, states that every applicant for an employment agency's license or a renewal thereof shall file with the commissioner of the Department of Labor and Industry a written application for the license. We noted in our audit that the commissioner of Labor and Industry does not require the employment agencies to submit an application for renewal of license.

RECOMMENDATION

We recommend that the commissioner of the Department of Labor and Industry require private employment agencies to submit a written application prior to issuance of license renewals or seek legislation repealing this statutory requirement.

RESTAURANT, BAR, AND TAVERN BONDS

Section 41-2005, R.C.M. 1947, states that "Every person who leases from another person premises for the purpose of conducting therein a

business as a restaurant, bar or tavern is hereby required to file a bond equal to at least double the amount of the projected semimonthly payroll with the Commissioner of Labor and Industry." We noted in our audit that the commissioner has not contacted a significant number of restaurants, bars, and taverns operating in the state of Montana to determine if a bond need be posted because of leased premises.

The commissioner has accepted certificates of deposit (CD's) and personal checks to satisfy bonding requirements. As noted above, Section 41-2005, R.C.M. 1947, provides that only bonds fulfill the bonding requirement. The division should seek legislation to amend Section 41-2005, R.C.M. 1947, if other forms of security are to be acceptable in satisfying the bonding requirements of the section.

The Labor Standards Division does not adequately secure and control the CD's, personal checks and bonds which the commissioner has accepted as bonding. The division maintains these documents in an unlocked file cabinet accessible to all agency personnel. The division should adequately safeguard the CD's, bonds and personal checks allowing only key agency personnel access to them.

RECOMMENDATION

We recommend that the commissioner of the Department of Labor and Industry:

- 1. Ensure that all restaurants, bars and taverns who lease their place of business, post the required bond in compliance with Section 41-2005, R.C.M. 1947.*
- 2. Accept only bonds to satisfy bonding requirements in compliance with Section 41-2005, R.C.M. 1947.*
- 3. Adequately safeguard all bonds or securities which have been accepted in lieu of bonds.*

CONTRACTORS' SURETY BONDS

Sections 41-2702 and 41-2704, R.C.M. 1947, state that any contractor with a net worth of \$50,000 or less who contracts with another to do any work or perform any services for the other shall furnish a surety bond or other form of security to the other for the purpose of ensuring payment of wages to employees. Section 41-2705 states that the commissioner of the Department of Labor and Industry shall promulgate any rules necessary to carry out the provisions of Sections 41-2702 and 41-2704. The commissioner of Labor and Industry has not promulgated the rules necessary to carry out the provisions of Sections 41-2702 and 41-2704. The former administrator of the Labor Standards Division estimated that between 4,000 and 5,000 contractors with a net worth of \$50,000 or less operating in Montana have not posted the required bond.

RECOMMENDATION

We recommend that the commissioner of the Department of Labor and Industry promulgate rules necessary to comply with Sections 41-2702 and 41-2704, R.C.M. 1947.

STATE'S ACCOUNTING FOR ASSETS HELD IN TRUST

The Labor Standards Division receives assets which they accept as bonding required by various sections of the Revised Codes of Montana, 1947. These assets are held in trust without any formal accounting procedures or records. The Statewide Budgeting and Accounting System currently has the capability to account for assets held in trust. The department should consult the Department of Administration for assistance in formally accounting for assets accepted in satisfying bonding requirements.

RECOMMENDATION

We recommend that the department consult the Department of Administration for assistance in formally accounting for assets accepted in satisfying bonding requirements.

MANAGEMENT REPORT REVIEW

In the prior audit of the divisions for fiscal year ended June 30, 1975, a recommendation was made to establish a policy of monthly management report review by authorized program personnel. We could find no evidence that authorized program personnel had made a monthly review of the Statewide Budgeting and Accounting System's (SBAS) management reports.

We have discussed in this report deficiencies, errors, and omissions in the divisions' records, including the misstatement of Comprehensive Employment and Training Act (CETA) revenues and expenditures, inventory records containing errors and omissions, Veterans' Administration expenditures incorrectly charged, the Personnel Appeals Division and the Human Rights Division exceeding their authorized spending authority, and the individual subsidiary detail ledger amounts within the wage trust account containing errors. If the agency has performed a monthly review of SBAS management reports, many of these deficiencies could have been disclosed and corrected. A monthly review of the management reports is essential to disclose errors and omissions in the agency's financial records.

RECOMMENDATION

We recommend that the department establish policies and procedures to ensure that authorized program personnel review SBAS management reports on a monthly basis.

FINAL COMMENTS

We have reviewed the comments and recommendations contained in this report with the Director of the Department of Labor and Industry and his staff. The full text of the department's response to this report begins on page 33.

We wish to express our appreciation to the Director and his staff for cooperation and assistance during this audit.

FINANCIAL STATEMENTS

LABOR STANDARDS DIVISION, HUMAN RIGHTS DIVISION, PERSONNEL APPEALS DIVISION

ALL FUNDS
BALANCE SHEET
JUNE 30, 1977

	<u>General Fund</u>	<u>Private Employment Agency Fund</u>	<u>Federal and Private Revenue Fund</u>	<u>Board of Personnel Appeals Revolving Fund</u>	<u>Wage Collection Trust Fund</u>
ASSETS					
Cash In Treasury		\$7,685	\$19,968	\$812	\$ 4,132
Amount available to pay accrued support expenditures	\$24,056				
Expense advances to employees			200		(2,651)
Deferred accounts receivable					(5)
Property held in trust					<u>\$ 1,476</u>
Total Assets	<u>\$24,056</u>	<u>\$7,685</u>	<u>\$20,168</u>	<u>\$812</u>	<u>\$ 1,476</u>
LIABILITIES AND FUND BALANCE					
Accrued support expenditures	\$24,056		\$ 5,010		\$ (2,651)
Reserve for deferred accounts receivable			388	\$516	
Accrued withdrawals					4,127
Account for property held in trust		<u>7,685</u>	<u>14,770</u>	<u>296</u>	
Fund balance					<u>\$ 1,476</u>
Total Liabilities and Fund Balance	<u>\$24,056</u>	<u>\$7,685</u>	<u>\$20,168</u>	<u>\$812</u>	<u>\$ 1,476</u>

LABOR STANDARDS DIVISION, HUMAN RIGHTS DIVISION, PERSONNEL APPEALS DIVISION

ALL FUNDS

STATEMENT OF REVENUE COMPARED TO REVENUE ESTIMATES

FISCAL YEAR ENDED JUNE 30, 1976

Revenue Category	Private Employment Agency Fund		Federal and Private Revenue Fund		Board of Personnel Appeals Revolving Fund		Total	
	Estimated	Actual	Estimated	Actual	Estimated	Actual	Estimated	Actual
Licenses and Permits Employment Agency	\$2,200	\$2,225					\$ 2,200	\$ 2,225
Reimbursements								
Federal - Veterans' Administration			\$ 68,000	\$ 99,227			68,000	99,227
Miscellaneous					\$8,000	\$9,763	8,000	9,763
Other								
Grants, Gifts, Bequests, Donations								
Federal Grants								
National Endowment for the Arts-Native Women's Conference Grant			5,300	7,229			5,300	7,229
Concentrated Employment Training Act-Special Grant			2,993	1,639			2,993	1,639
EEOC Grants-Title VII Enforcement			38,500	32,483			38,500	32,483
	\$2,200	\$2,225	\$114,793	\$140,578	\$8,000	\$9,763	\$124,993	\$152,566

LABOR STANDARDS DIVISION, HUMAN RIGHTS DIVISION, PERSONNEL APPEALS DIVISION

ALL FUNDS

STATEMENT OF REVENUE COMPARED TO REVENUE ESTIMATES

FISCAL YEAR ENDED JUNE 30, 1977

Revenue Category	<u>General Fund</u>		<u>Private Employment Agency Fund</u>		<u>Federal and Private Revenue Fund</u>		<u>Board of Personnel Appeals Revolving Fund</u>		<u>Total</u>	
	<u>Estimated</u>	<u>Actual</u>	<u>Estimated</u>	<u>Actual</u>	<u>Estimated</u>	<u>Actual</u>	<u>Estimated</u>	<u>Actual</u>	<u>Estimated</u>	<u>Actual</u>
Licenses and Permits Employment Agencies			\$2,300	\$4,060					\$ 2,300	\$ 4,060
Reimbursements										
Miscellaneous In-Service Training-Helena Indian Alliance					\$ 3,000	\$ 1,288			3,000	1,288
In-Service Training-Title VII Public Service Employment					3,828	3,705			3,828	3,705
Prior Year Expenditure Abatements	\$-0-	\$ 790							-0-	790
Miscellaneous										
Other	-0-	260								
Fiscal Year 1975-76 Compre- hensive Employment and Training Program-Revenue Received in Fiscal Year 1976-77					-0-	8,024	\$16,000	\$8,546	-0-	8,024
Federal Assistance										
Department of Labor Employment Service					3,400	1,700			3,400	1,700
Comprehensive Employment and Training Program					26,000	19,297			26,000	19,297
Equal Employment Oppor- tunity Commission					42,000	52,405			42,000	52,405
National Foundation on Arts and Humanities					7,800	18			7,800	18
Miscellaneous Assistance Veterans' Administration State Training					68,000	86,398			68,000	86,398
					<u>\$154,028</u>	<u>\$172,835</u>	<u>\$16,000</u>	<u>\$8,546</u>	<u>\$172,328</u>	<u>\$186,491</u>
	<u>\$-0-</u>	<u>\$1,050</u>	<u>\$2,300</u>	<u>\$4,060</u>						

LABOR STANDARDS DIVISION, HUMAN RIGHTS DIVISION, PERSONNEL APPEALS DIVISION

ALL FUNDS

STATEMENT OF EXPENDITURES COMPARED WITH APPROPRIATIONS
FISCAL YEARS ENDED JUNE 30, 1976 AND JUNE 30, 1977

	Labor Standards Division		Board of Personnel Appeals		Human Rights Division		Status of Women Bureau		Totals	
	1975-76	1976-77	1975-76	1976-77	1975-76	1976-77	1975-76	1976-77	1975-76	1976-77
General Fund Appropriation	\$214,025	\$230,712	\$195,956	\$205,522	\$91,988	\$95,447	\$36,104	\$37,669	\$538,073	\$569,350
Amendments	-0-	(8,355)	-0-	-0-	-0-	-0-	-0-	-0-	(8,355)	(8,355)
Total Appropriation	214,025	222,357	195,956	205,522	91,988	95,447	36,104	37,669	538,073	560,995
Expenditures	194,503	220,608	195,956	204,538	91,988	95,382	31,286	37,236	513,733	557,764
Unexpended Balance	\$ 19,522	\$ 1,749	-0-	\$ 984	-0-	65	\$ 4,818	\$ 433	\$ 24,340	\$ 3,231
Private Employment Agency										
Fund Appropriation	\$ 1,400	\$ 1,400							\$ 1,400	\$ 1,400
Expenditures	1,400	1,400							1,400	1,400
Unexpended Balance	\$ -0-	-0-							\$ -0-	\$ -0-
Federal and Private Revenue										
Fund Appropriations	\$ 68,200	\$ 68,200							\$ 68,200	\$ 68,200
Amendments	10,500	25,786			\$76,685	\$113,407	\$ 7,800	-0-	94,985	139,193
Total Appropriation	78,700	93,986			76,685	113,407	7,800	-0-	163,185	207,393
Expenditures	73,255	88,187			52,361	86,830	5,952	-0-	133,568	175,017
Unexpended Balance	\$ 3,445	\$ 5,799			\$24,324	\$ 26,577	\$ 1,848	-0-	\$ 29,617	\$ 32,376
Board of Personnel Appeals										
Revolving Fund Approp-										
riation										
Amendments			\$ 8,000	\$ 8,000					\$ 8,000	\$ 8,000
Total Appropriation			7,000	-0-					7,000	-0-
Expenditures			15,000	8,000					15,000	8,000
Unexpended Balance			\$ -0-	\$ 7,893					15,000	7,893
				\$ 107					\$ -0-	\$ 107
Appropriations	\$283,625	\$300,312	\$203,956	\$213,522	\$ 91,988	\$ 95,447	\$36,104	\$37,669	\$615,673	\$646,950
Total Amendments	10,500	17,431	7,000	-0-	76,685	113,407	7,800	-0-	101,985	130,838
Total Appropriations	294,125	317,743	210,956	213,522	168,673	208,854	43,904	37,669	717,658	777,788
Total Expenditures	271,158	310,195	210,956	212,431	144,349	182,212	37,238	37,236	663,701	742,074
Total Unexpended Balance	\$ 22,967	\$ 7,548	\$ -0-	\$ 1,091	\$ 24,324	\$ 26,642	\$ 6,666	\$ 433	\$ 53,957	\$ 35,714

LABOR STANDARDS DIVISION, HUMAN RIGHTS DIVISION, PERSONNEL APPEALS DIVISION

ALL FUNDS

STATEMENT OF CHANGES IN FUND BALANCES
FISCAL YEARS ENDED JUNE 30, 1976 AND JUNE 30, 1977

	<u>General Fund</u>	<u>Private Employment Agency Fund</u>	<u>Federal and Private Revenue Fund</u>	<u>Board of Personnel Appeals Revolving Fund</u>	<u>Wage Collection Trust Fund</u>
Balance July 1, 1975	\$ -0-	\$4,200	\$ 5,159	\$ 1,066	\$-0-
Additions:					
Appropriated from General Fund	538,073				
Revenue and Income		2,225	140,578	9,763	
Prior Year Revenue Adjustment		<u>6,425</u>	<u>145,737</u>	<u>10,835</u>	<u>-0-</u>
Total Balance Plus Additions	<u>538,073</u>				
Deductions:					
Expenditures and Withdrawals	513,733	1,400	133,568	15,000	
Prior Year Expenditure Adjustment			968		
Reversions	<u>24,340</u>	<u>1,400</u>	<u>134,536</u>	<u>15,000</u>	<u>-0-</u>
Total Deductions	<u>538,073</u>				
Balance June 30, 1976	-0-	5,025	11,201	(4,165)	-0-
Additions:					
Appropriated from General Fund	560,995				
Revenue and Income	1,050	4,060	172,835	8,546	
Prior Year Expenditure Adjustment			5,751	3,808	
Prior Year Revenue Adjustment	90				
Prior Year Income Adjustment	<u>32</u>	<u>9,085</u>	<u>189,787</u>	<u>8,189</u>	<u>-0-</u>
Total Balance Plus Additions	<u>562,167</u>				
Deductions:					
Expenditures and Withdrawals	557,764	1,400	175,017	7,893	
Reversions	<u>3,231</u>				
Revenue and Income Transferred					
to General Fund	<u>1,172</u>	<u>1,400</u>	<u>175,017</u>	<u>7,893</u>	<u>-0-</u>
Total Deductions	<u>562,167</u>	<u>\$7,685</u>	<u>\$ 14,770</u>	<u>\$ 296</u>	<u>\$-0-</u>
Balance June 30, 1977	\$ -0-				

LABOR STANDARDS DIVISION, HUMAN RIGHTS DIVISION, PERSONNEL APPEALS DIVISION

ALL FUNDS

STATEMENT OF EXPENDITURES BY OBJECT

FISCAL YEARS ENDED JUNE 30, 1976 AND JUNE 30, 1977

	Labor Standards		Board of		Human Rights		Status of		Total Expenditures
	1975-76	1976-77	Personnel	Appeals	Division	1975-76	1976-77	1975-76	1975-76
Personal Services									
Salaries	\$185,794	\$210,854	\$116,224	\$136,993	\$ 83,770	\$119,991	\$18,816	\$22,233	\$404,604
Hourly Wages			2,852	522					2,852
Other Compensation	23,131	24,852	15,595	16,922		259	2,461	2,926	52,501
Employee Benefits	208,925	235,706	134,671	154,437	95,084	134,768	21,277	25,159	459,957
Total Personal Services									
Operating Expenses									
Contracted Services	4,234	16,280	44,785	25,289	15,600	13,170	7,837	4,340	72,456
Supplies and Materials	5,732	4,409	2,676	1,737	1,904	2,434	588	402	10,900
Communications	6,738	8,035	5,486	3,034	4,099	7,026	1,317	2,147	17,640
Travel	32,066	30,207	11,341	14,745	15,588	11,310	3,607	2,479	62,602
Rent	8,260	11,500	7,612	6,660	5,130	11,836	883	1,478	58,741
Utilities	2,362	2,430	730	629					21,885
Repairs and Maintenance	252	461	315	332	117	23	289	136	3,059
Other Expenses	414	537	1,037	917	1,222	1,303	256	276	3,092
Total Operating Expenses	60,058	73,859	73,982	53,343	43,660	47,102	14,777	11,258	2,929
Equipment	2,175	630	2,303	4,651	5,605	342	1,184	819	192,477
GRAND TOTAL	\$271,158	\$310,195	\$210,956	\$212,431	\$144,349	\$182,212	\$37,238	\$37,236	185,562
									6,442
									\$663,701
									\$742,074

LABOR STANDARDS DIVISION
HUMAN RIGHTS DIVISION
PERSONNEL APPEALS DIVISION

Notes to Financial Statements
Two Fiscal Years Ended June 30, 1977

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preceding financial statements were prepared from the Statewide Budgeting and Accounting System (SBAS).

The state of Montana utilizes the modified accrual basis of accounting. Modified accrual is defined as "that method of accounting in which expenditures are recorded on the basis of valid obligations and revenues are recorded when received as cash. Full accrual accounting will be permitted if the need justifies the application. At the end of a fiscal year, all valid obligations against an appropriation are to be accrued as expenditures as provided by law." (Montana Operations Manual 2-0240.40)

2. RETIREMENT PLAN

The Labor Standards Division's employees are covered by the Public Employees' Retirement System, a contributory plan under which the state contributes 5.55 percent of an employee's gross wages and the employee contributes 6 percent of his gross wages. The division incurred pension costs of \$21,946 during fiscal year 1975-76 and \$26,563 during fiscal year 1976-77. The state's policy is to fund accrued pension costs.

3. VACATION AND SICK PAY

Liabilities incurred because of employees' unused vacation and sick pay are not recorded. The related expenditures are recorded when paid. Permanent employees are allowed to accumulate and carry over into a new calendar year a maximum of two times their annual accumulation of vacation. Upon termination, qualifying permanent employees having unused accumulated

vacation and sick leave receive payment for vacation on a 100 percent basis and sick leave on a 25 percent basis. The amount of the liability associated with unused, accumulated vacation and sick leave at June 30, 1977, is maintained on an hourly basis rather than by dollar amount. The monetary liability is not calculated until an employee terminates.

4. GENERAL FIXED ASSETS AND DEPRECIATION

General fixed assets purchased are recorded as expenditures in the various funds at the time of purchase. There are no accounting controls for the general fixed assets group of accounts, and depreciation is not provided on general fixed assets.

5. LEASE COMMITMENTS

During fiscal years 1975-76 and 1976-77 the Human Rights Division, Apprenticeship Bureau, Labor Standards Bureau, Women's Bureau, and the Personnel Appeals Division leased office space located throughout Helena at a monthly rate of \$2,246. In September 1977 the Apprenticeship Bureau, Labor Standards Bureau, Women's Bureau, Personnel Appeals Division, and the Employment and Training Council, mentioned in Note 6, moved into a single building with a monthly rental rate of \$4,541. The new lease expires June 30, 1981, with projected lease payments amounting to \$54,492 each year for the next four years totaling \$217,986. The Human Rights Division maintains its original lease expiring June 30, 1978, at a monthly rental rate of \$678 or a yearly commitment of \$8,136. These amounts do not include future increases in utilities that the department must pay.

The department is liable for the lease commitment on the former office space which housed the Personnel Appeals Division until September 1, 1980; however, the lessor for the new office space has agreed in writing

to reimburse the division for any lease payments that the division must pay on the former lease commitment. At the present time the former office space is subleased to a non-profit organization.

6. SUBSEQUENT EVENT

As of July 1, 1977, the Employment and Training Council came under the direction of the Department of Labor. The main objective of the Employment and Training Council is to administer statewide employment and training programs funded under the Comprehensive Employment and Training Act of 1973.

AGENCY REPLY

State of Montana

Department of Labor and Industry



449-2621

Helena, 59601

THOMAS L. JUDGE
GOVERNOR OF MONTANA

DAVID E. FULLER
COMMISSIONER

RECEIVED

FEB 1 1978

MONTANA LEGISLATIVE AUDITOR

January 31, 1978

Mr. Morris Brusett
Legislative Auditor
Room 135, State Capitol
Helena, Montana 59601

Dear Morris:

We have reviewed the audit report prepared by Mr. Dick Tamblyn of your staff subsequent to his examination of the accounts and programs contained in the Labor Standards Division, the Human Rights Division and the Personnel Appeals Division of the Department of Labor and Industry. The following are our general comments about the audit and our specific responses to the various recommendations contained in the report.

We found Mr. Tamblyn's examination to be generally comprehensive and for the most part agree with his report of the accounting problems and management weaknesses. He completed his work quietly, courteously and in several instances was indeed helpful to our staff during the process of tracing and resolving errors and suggesting better fiscal procedure.

As you noted in your report most of the problems in the divisions occurred in transactions completed in the first 20 months of the period. In March of 1977 when Mr. David Fuller became Commissioner of Labor and Industry he requested authorization for an additional FTE to be shared by the Governor's Employment and Training Council and the three divisions discussed in this audit, so that a professional accountant with specific experience with the Statewide Budgeting and Accounting System could be added to the staff. Most of the time and effort of that individual in the past year has been directed at correcting errors, establishing the needed fiscal procedures and working with division administrators to develop and use the system as a management tool.

Our responses to the audit recommendations are as follows:

Recommendation

We recommend that the department carefully monitor expenditures and appropriation levels to preclude exceeding authorized spending levels.

With the advent of new accounting personnel a system of expenditure and appropriation review was implemented. The division administrators are now aware of spending levels on a monthly basis and FY 1977 expenditures were all within appropriation and available cash levels.

Recommendation

We recommend that the department consult the Department of Administration concerning accounting for license fees.

We concur with this recommendation and will work with the Department of Administration to implement a proper system of accounting for license fees.

Recommendation

We recommend that the department properly record Comprehensive Employment and Training Act receipts as income.

The correct procedures for recording CETA receipts as income was implemented in March of 1977 and corrections were made so that all FY 1977 income was properly recorded.

Recommendation

We recommend that the department properly allocate expenses between funds when preparing payroll input.

Prior to the end of FY 1977 adjustments were made on the payroll and in the accounting records so that allocations of payroll costs to the Veteran's Administration contract were consistent with the contract. All personnel are now being correctly charged on the payroll in the manner recommended.

Recommendation

We recommend that the department:

1. Require all employees to submit standard requests for leave of absence and that supervisors properly approve the requests.

2. Review leave records in a timely manner for mathematical accuracy.
3. Reconcile, on a monthly basis, all requests for leave of absence and time and attendance reports to the leave records to disclose discrepancies.

New payroll procedures have been written and implemented for all employees in the divisions. A standard request for leave has been developed and must be approved prior to the taking of leave. All leave records were reviewed and mathematical errors detected were corrected in July 1977. Leave records are now compiled by the payroll clerk and are posted and reconciled for each pay period. Leave requests are submitted with the applicable time and attendance reports. Total leave accruals are reported to employees on each time and attendance report.

Recommendation

We recommend that the department institute procedures whereby an appropriate official reviews and approves all claims prior to payment.

New procedures have been established by the agency which require that all purchases be reviewed and approved on an agency requisition form prior to purchase. The accounting staff reconciles all invoices to approved requisitions and delivery slips before payment.

Recommendation

We recommend that the department reimburse travel allowances in compliance with Section 59-539, R.C.M. 1947.

A system of review by supervisory personnel and pre-audit by accounting personnel has been established for all travel claims.

Recommendation

We recommend that the department:

1. Restrictively endorse all negotiable instruments upon initial receipt in compliance with the Montana Operations Manual.

2. Properly safeguard all negotiable instruments prior to deposit in compliance with the Montana Operations Manual.
3. Prepare a listing of all cash receipts and compare this listing to subsequent deposits in compliance with the Montana Operations Manual.

We concur with this recommendation and are developing new procedures to safeguard negotiable instruments.

Recommendation

We recommend that the department:

1. Prepare meaningful equipment records including all assets with a value of at least \$100 in compliance with Management Memo 70-17.
2. Conduct annual physical inventories in compliance with Management Momo 70-17.
3. Permanently tag each item of equipment worth at least \$100.
4. Reconcile all equipment expenditures of at least \$100 with monthly entries in the equipment ledgers.

We concur with this recommendation and as soon as the Department of Administration has completed the statewide Property Accountability Management System we will make every effort to properly implement it.

Recommendation

We recomend that the department:

1. Use only one subsidiary detail ledger number for each wage claim.
2. Accept only cashier's checks as payment for wage claims from employers or allow a two week period for personal checks to clear the employer's bank.

A new subsidiary detail ledger numbering system was established for the wage trust fund in April of 1977 and each wage case is now identified by the same descriptive number both on SBAS and in the Standards Bureau records.

All previously used subsidiary detail ledger numbers on SBAS were identified and reconciled to the Standards Bureau and assigned the new series numbers in November 1977.

All requests for payment of wage claims specify that payment should be made by cashier's checks. Since July 1 personal checks received in payment of wage claims have been deposited and allowed two weeks to clear before a warrant has been prepared for the claimant.

Recommendation

We recomend that the department review all entries to the State-wide Budgeting and Accounting System.

The problem noted in this recommendation came about because wage claims were not being recorded as accounts receivable at the proper time, nor were unpaid claims being properly processed in the bad debt procedure. The incorrect entries were corrected in the July 1977 entries, the month after they were originally made and a new procedure for establishing wage claims as accounts receivable is being developed so the problem should not reoccurr.

Recommendation

We recommend that the department:

1. Adopt written policies concerning forfeiting unclaimed wages to the general fund to assure compliance with Section 41-1314.3, R.C.M. 1947.
2. Seek resolution of the statutory conflict relating to the disposition of warrants for unclaimed wages.

When the wage trust fund was reconciled in November 1977 all accounts exceeding the statutory limitation were reverted to the general fund in compliance with Section 41-1314.3, R.C.M. 1947. We concur with the recommendation that there should be a written policy concerning implementation of the statute and such policy will be promulgated as soon as possible. This agency has been in contact with the Auditor's office for the past 8 months attempting to resolve the conflict relating to the dispostion of warrants for unclaimed wages. We appreciate your suggestions in the matter and will continue to pursue the matter until it is resolved.

Recommendation

We recommend that the Commissioner of Labor and Industry adopt written procedures whereby a penalty is assessed employers in compliance with Section 41-1302, R.C.M. 1947.

We concur with this recommendation and will work to implement a policy and procedure which will carry out the statutory intent.

Recommendation

We recommend that the department establish payables and receivables on SBAS within the revolving fund to record moneys owing and due the general fund, factfinders and other concerned parties.

We concur with this recommendation. Preliminary discussions have been held with the Administrator of the Personnel Appeals Division and only the press of what has appeared to be more immediate procedure needs has delayed the completion of this item.

Recommendation

We recommend that the Commissioner of the Department of Labor and Industry require private employment agencies to submit a written application prior to issuance of license renewals or seek legislation repealing this statutory requirement.

We concur with your recommendation to require written applications prior to licensing of private employment agencies. The procedure will be implemented as soon as an acceptable form can be prepared.

Recommendation

We recommend that the Commissioner of the Department of Labor and Industry:

1. Ensure that all restaurants, bars and taverns who lease their place of business, post the required bond in compliance with Section 41-2005, R.C.M. 1947.
2. Accept only bonds to satisfy bonding requirements in compliance with Section 41-2005, R.C.M. 1947.
3. Adequately safeguard all bond or securities which have been accepted in lieu of bonds.

Prior to FY 1978 the Standards Bureau has not had adequate personnel to attempt to enforce the bonding requirements of Section 41-2005, R.C.M. 1947. Five new positions were approved for this year and since July 1, personnel have developed and begun to implement procedures to contact all restaurants, bars and taverns and assure their compliance with the bonding require-

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ments. We are requesting further clarification regarding the bonding requirements and will request legislation if necessary. Permission is being requested to rent a safe deposit box and all bonds and securities will be placed in the box for safe keeping.

Recommendation

We recommend that the Commissioner of the Department of Labor and Industry promulgate rules necessary to comply with Sections 41-2702 and 41-2704, R.C.M. 1947.

There is some question as to the proper interpretation of these sections and the Commissioner intends to seek clarification before proceeding. Rules will be promulgated and implemented as soon as possible.

Recommendation

We recommend that the department consult the Department of Administration for assistance in formally accounting for assets accepted in satisfying bonding requirements.

We concur with this recommendation and the need to adequately account for and safeguard all assets held in trust by the agency.

Recommendation

We recommend that the department establish policies and procedures to ensure that authorized program personnel review SBAS management reports on a monthly basis.

A regular review and reconciliation of SBAS reports was implemented last April when the professional accountant came on staff. The reports are reviewed monthly by the accountant and the program managers have been assisted in reading and analyzing the reports. Additional analysis and review procedures are being established which should assure adequate compliance with this recommendation.

Sincerely,



DAVID E. FULLER
Commissioner



